PHYSIOCRACY AND CLASSICISM IN BRITAIN

"THAT system," Lauderdale noted in 1805, "which represents the produce of land as the sole source of the revenue, and the wealth of a nation, has long had its disciples in this country." [1] Lauderdale and his contemporaries found little difficulty in tracing many instances where earlier British writers had substantially anticipated certain of the basic doctrines of Quesnay. In the early years of the nineteenth century, indeed, it would have been virtually impossible for any British economist to regard Physiocracy as an eccentric, ephemeral and peculiarly French body of thought. For these were the years of the great debates over the validity of Physiocratic economic principles. Attempts were being made by numbers of publicists to popularise Physiocratic doctrines in various forms; polemics were being written in reply, some of them by men of considerable ability; and there was scarcely an economist writing in Britain at this time who did not feel impelled to give his opinion on the issues at stake.

It was largely in the course of these debates that British political economy was finally purged of the Physiocratic elements which had often characterised it in the past and moulded into something like the form it was eventually to assume in the hands of Ricardo. The present article begins with a discussion of the broad theoretical and historical relationships between the Physiocratic viewpoint and that adopted by Adam Smith and his followers. It then proceeds to its main task—to examine the nature and significance of the British Physiocratic controversies, with special reference to the manner in which they stimulated the development and refinement of Classical theory during the twenty years prior to the publication of Ricardo's *Principles*.

I. PHYSIOCRACY AND CLASSICISM

To Quesnay, as to Smith, the fundamental economic problem seemed to be that of the nature and causes of the wealth of nations. Of what did wealth consist? How was it produced and increased? And, in particular, what action should be taken to maximise its rate of increase? Both Quesnay and Smith believed that it was impossible to answer such questions as these unless one began by making a clear distinction between the two portions into

[1] *An Inquiry into the Nature and Origin of Public Wealth*, p. 112. Cf. Dugald Stewart, "Lectures on Political Economy," in *Collected Works*, Vol. 1, at pp. 298–301.

which the annual produce " naturally divides itself " when it first comes into the hands of those to whom it directly accrues. One portion of the produce (or its value) has to be used to replace or compensate for the items which have been physically used up in the process of production during the period which has just ended. The second portion, the surplus over what Ricardo called " the absolutely necessary expenses of production," [1] represents the net social gain on the period's working. This surplus is " disposable " in the sense that it does not have to be expended in *maintaining intact* the productive powers of the community, but may at the option of the community be either consumed " unproductively " or employed to *increase* its productive powers.[2] In French Physiocracy the second portion of the produce figured, of course, as the famous " *produit net*." In the systems of Adam Smith and his followers it figured variously as the " net real income," " net revenue," " disposable income," or simply " surplus."

Upon the size of the social surplus, it was often assumed, the prosperity of the community largely depended. This assumption was based, at least in part, upon the belief that the surplus was the only possible source from which new capital could be accumulated. The importance of this idea is obvious enough in the *Wealth of Nations*, but it is not so immediately apparent in the work of the French Physiocrats. Yet the Physiocrats' analysis of the various forms of capital was surely one of their most significant contributions to economic thought. Quesnay himself was concerned above all with the application of capitalist methods to agriculture, but this one-sided approach was fairly soon corrected when the agricultural school founded by Quesnay and Mirabeau was amalgamated with—or absorbed by—the " *école-sœur* " allegedly founded by Gournay. When Du Pont, Baudeau and Turgot, who were mainly responsible for removing the feudal trappings from Quesnay's system, began to call energetically for the application of capitalist methods to manufacture as well as to agriculture, the essential character of Physiocracy became easier to discern. But even in the earlier works of the founders of the agricultural school the emphasis on the importance of capital is quite unmistakable. Quesnay's first economic article, " *Fermiers*," was a plea for the adoption of *la grande culture* by a small number of rich farmers rather than *la petite culture* by a host of poor metayers; and in his second article, " *Grains*," he made it clear that he visualised his

[1] *Works* (ed. McCulloch), p. 210, footnote.

[2] Cf. J. S. Mill, *Essays on Some Unsettled Questions of Political Economy* (L.S.E. reprint), p. 89.

rich farmer not as a superior sort of labourer but as "*un entrepreneur qui gouverne.*"[1] It was not so much men who were required in the country, Quesnay insisted—it was rather wealth.[2] In the Tableau the great kingdom, "*porté à son plus haut degré d'agriculture,*"[3] was obviously intended to represent a France of the future in which *la grande culture* which Quesnay had seen in operation in certain French provinces[4] had been extended throughout the whole realm. And Quesnay also made it clear that the capital required to bring the kingdom "*à son plus haut degré d'agriculture*" must come, generally speaking, from the *produit net.* "The more agriculture languishes," he wrote, "the more necessary it is that a portion of the disposable revenue should be devoted to its rehabilitation."[5]

Both Quesnay and Smith, then, and the schools which they represent, were primarily concerned with the scientific analysis of *capitalist production.* Both were interested in securing an increase in national wealth per medium of an extension of capitalist methods, and both realised that freedom of trade, internal and external, was a necessary precondition of this. In their theoretical analyses they both tended to concentrate much of their attention on the question of the origin and disposition of the social surplus, which they regarded as the only possible source of new capital. In this common interest and emphasis, they are so sharply distinguished, on the one hand from the Mercantilist writers who preceded them, and on the other hand from the Marginalist writers who followed them, that it seems proper for the historian of economic thought to stress their community by treating them as working within a broadly similar framework of aims and concepts. The most convenient name for this framework is probably "Classicism." Physiocracy and the type of theory propounded by Smith and his followers are best regarded, I suggest, as two different species of the genus Classicism.[6]

[1] *Oeuvres* (ed. Oncken), p. 219.
[2] *Ibid.*, p. 333.
[3] *Ibid.*, p. 309.
[4] *Ibid.*, p. 196.
[5] *Ibid.*, p. 317. Cf. the "*troisième observation,*" pp. 318–19. It was in this connection that one of the fundamental contradictions inherent in the Physiocratic tenets was later to reveal itself. Quesnay often argued (*e.g.*, pp. 313–14) that the "interest" which the farmer received on his capital was merely a compensation for wear and tear, etc., and contained no element of *produit net.* On the other hand, he often tended to visualise the farmers, rather than the landlords, as the potential agents of agricultural reform. How, then, if the farmers' income included no element of *produit net,* could they accumulate the capital necessary to accomplish the reform? One possible explanation was given by Quesnay (pp. 507–8), but it was hardly satisfactory.

[6] This view roughly coincides with the original use of the term "Classical" by Marx. Cf. his *Critique of Political Economy* (Kerr edition), p. 56.

But the differences between these two species of Classical thought were nevertheless profound. The root of the essential difference between them lay in the distinct assumption which each school made concerning the *form* taken by the social surplus. The Physiocrats assumed that the surplus took the form of land-rent and land-rent alone. The earth is the unique source of wealth; agriculture is productive and manufacture sterile; the *produit net* alone constitutes wealth—such propositions as these are simply different ways of saying that land-rent is the only form which the social surplus assumes. To the earlier Physiocrats there was no such category of income as *net* profit at all. The capitalist farmer certainly received "interest" on his capital, but this "interest" was usually regarded as being only just sufficient to compensate for wear and tear and the damage done by acts of God, etc.—that is, it was conceived simply as a refund of certain necessary costs of cultivation. The industrial entrepreneur, again, sometimes received an income which appeared to be in the nature of a net profit, but upon analysis this income was revealed either as a superior sort of wage (in which case it entered into necessary costs) or else as a portion of the *produit net* which the entrepreneur was able to extort from the landowner by selling commodities to him at a price greater than their real value.[1] Any "profit" received which was not resolvable into wages was generally regarded as being dependent upon and paid out of rent, the only true *produit net.* In the work of Quesnay and Mirabeau this view no doubt to some extent reflected the subordinate position of manufacture and the backward condition of agriculture under the *ancien régime* in the middle of the eighteenth century. But its significance is wider than this. It is a view which is likely to be extensively held in any society which is passing through a particular historical stage—the stage in which profit on capital exists but has not yet emerged as a *normal* category of income.[2] And it is a view which is likely to disintegrate once this stage has been passed.

[1] He could only do this, it was often suggested, if he possessed "exclusive privileges" of some kind or other. Cf. Du Pont's statement quoted in Weulersse, *Le Mouvement Physiocratique,* Vol. 1, p. 298. As Weulersse remarks (p. 295), manufacture is regarded as being burdensome when it ceases to be sterile.

[2] The passing of this stage is likely to be marked by the gradual disappearance of the idea of "profit" as the reward for a special kind of labour, and the emergence of the concept of a normal *rate* of profit, calculated by relating net income not to the amount of labour performed by the owner of the capital but to the amount of capital employed by him. Cf. Smith, *Wealth of Nations* (Everyman edition), Vol. 1, p. 43.

Whereas the Physiocrats considered rent to be the only income in the nature of a surplus, the Smithian school afforded that status to profit as well as to rent. To Smith himself it seemed clear that that second portion of the annual produce which represented the social surplus over cost consisted of both rent and profits. One part of the produce, he wrote, is "destined for replacing a capital, or for renewing the provisions, materials, and finished work, which had been withdrawn from a capital; the other for constituting a revenue either to the owner of this capital, as the profit of his stock, or to some other person, as the rent of his land."[1] The Physiocratic controversies which are examined later in this article resulted in the eventual confirmation of this viewpoint and in the partial elaboration of a set of techniques capable of giving it theoretical expression. And they also stimulated an important advance beyond this viewpoint.

In British economic thought before Adam Smith, those writers who were interested in questions relating to the analysis of the process of production (as distinct from the process of exchange) occasionally adopted a Physiocratic viewpoint—that is, they tended to regard profits (and interest) as being paid out of and dependent upon the rent of land. Cantillon, for example, believed that "all classes and individuals in a state subsist or are enriched at the expense of the proprietors of land."[2] A seventeenth-century pamphleteer asserted that the landowners "are masters and proprietors of the foundation of all the wealth of this nation, all the profits arising out of the ground which is theirs."[3] Petty, and to some extent Locke, seem to have regarded profits as included in rent, and interest as derived from rent.[4] It is easy

[1] *Wealth of Nations*, Vol. 1, p. 290.

[2] *Essai* (R. E. S. reprint), p. 43.

[3] Quoted in Beer, *An Inquiry into Physiocracy*, p. 74.

[4] Cf. Marx, *Theorien* (French edition), Vol. 1, pp. 4 and 21–2. It should perhaps be pointed out here that I do not regard statements to the effect that the earth is "properly the fountaine and mother of all the riches and abundance of the world," etc., or panegyrics in praise of the agricultural surplus, as being necessarily Physiocratic, in the sense in which I am using the word—although they may often be associated with a Physiocratic outlook. There is obviously an important sense in which it is universally true to say that all wealth springs from the earth, and that the agricultural surplus "maintains" all those who do not work on the land. I count as Physiocrats only those who, at a time when profit on capital is a recognised (though not necessarily a regular or normal) category of income, treat it not as an original and independent income but as being in some way dependent upon or "paid out of" land-rent, which alone constitutes the social surplus. This definition, while it leaves us with some difficult border-line cases like Paley and Steuart, at least prevents our having to acknowledge Aristotle and Artaxerxes as pioneers of Physiocracy—which William Spence was quite prepared to do! (See Cobbett's *Weekly Political Register*, December 12, 1807, p. 923.)

enough to detect, in some of the earlier efforts to define the Classical framework and to work within it, a definite Physiocratic bias. Why was it, then, that the eventual *systematisation* of the Classical attitude in Britain did not assume a Physiocratic form? And why was it that the Classical attitude was *first* systematised in France (where the system could hardly help assuming a Physiocratic form), rather than in Britain, whose economy was considerably more advanced than that of France?

Let us deal with the latter question first. The predecessors of Adam Smith, like Smith himself, were mainly interested in the problem of increasing national wealth, but in the conditions of their time it was only natural that their attention should have been chiefly directed to the relative "surplus" yielded in foreign trade rather than to the positive surplus yielded in production. The gains from foreign trade were so manifest and so considerable, and their importance as a source of capital accumulation so obvious, that the commercial classes inevitably regarded the prosperity of the country as being largely dependent upon the size of their own profits. And, as Mr. Dobb has pointed out, conditions were such that they still found it difficult "to imagine any substantial profit being 'naturally' made by investment in production." [1] If, therefore, the revenue from the sale of a commodity exceeded the cost of producing or acquiring it, the excess was regarded as originating, not in the process of production, but in the act of exchange. All industrial and commercial profit, in other words, was "profit upon alienation." For example, Cary explained that when manufactured goods were sold abroad "the necessity and humour of the buyers" sometimes enabled the merchant to sell his commodities at a price greater than the "true value of the materials and labour." [2] It was widely realised, of course, that if such a situation were to persist, it was necessary that the seller should be protected as far as possible against competition—a task which the State was expected to undertake.[3] For these reasons, then, in the last century of the Mercantilist era in Britain the economic analysis of production was almost always subordinated to the analysis of exchange. In France, on the other hand, the gains from foreign trade were of little economic importance, and it was possible for the foundations

[1] *Studies in the Development of Capitalism*, p. 199. Cf. Engels, *Engels on "Capital,"* pp. 110–11.

[2] John Cary, *An Essay Towards Regulating the Trade and Employing the Poor in this Kingdom* (2nd edition, 1719), pp. 11–12.

[3] M. H. Dobb, *op. cit.*, p. 200.

of the Classical analysis, with its emphasis on production, to be laid at a time when the capitalist order was only just beginning to emerge from feudal society.

To answer the other question—why the eventual systematisation of the Classical attitude in Britain did not assume a Physiocratic form—it is necessary to ask why the Mercantilist emphasis on exchange gradually gave way in this country to the Classical emphasis on production. Two interrelated developments in the eighteenth century contributed largely to this radical change of viewpoint. First, British merchants began to experience more serious competition in foreign trade, and attention was increasingly directed towards the reduction of costs in the manufactory rather than towards the strengthening of their monopolistic position in the foreign market [1]—a change of attitude which was, of course, greatly encouraged by the contemporary developments in industrial technique. Second, net profit on capital slowly began to emerge as a distinct and normal category of income, receivable at more or less the same rate per cent on capital employed not only in commerce but also in manufacture and agriculture—and receivable, too, even under conditions approaching perfect competition. Under these conditions, the notion of "profit upon alienation" could hardly hope to survive. Economists gradually began to regard profit as *originating* in the process of production and as merely being *realised* in the act of sale. Under these circumstances, economists naturally began to seek for the origin of the social surplus in the sphere of production rather than in the sphere of exchange. But the very conditions which induced this movement towards Classicism were such as to make it virtually impossible for the eventual systematisation of the Classical attitude in Britain to assume a Physiocratic form. By the time British economists came to analyse capitalist production, capitalist production itself had developed to such an extent that the basic Physiocratic assumptions seemed quite inconsistent with economic reality.

II. The Physiocratic Controversies

If we look at the *Wealth of Nations* from the vantage point of Ricardo's *Principles* it is not difficult to pick out the concepts which were destined to play the most prominent part in the development of political economy in the early nineteenth century. In the first place, Smith defined clearly the aim of the science.

[1] Cf. E. S. Furniss, *The Position of the Laborer in a System of Nationalism*, pp. 165–7.

"Political economy," he said, "considered as a branch of the science of a statesman or legislator, proposes . . . to enrich both the people and the sovereign." [1] Secondly, he suggested that the size of the annual produce per head in any country—the best measure of its degree of enrichment—is regulated by two factors—"first, by the skill, dexterity, and judgment with which its labour is generally applied; and, secondly, by the proportion between the number of those who are employed in useful labour, and that of those who are not so employed." [2] Thirdly, he insisted that both of these factors are largely dependent upon the quantity of capital—in the first case because the accumulation of capital is not only a historical precondition of the division of labour but also greatly encourages the extension of the division of labour, and in the second case because the number of useful labourers "is everywhere in proportion to the quantity of capital stock which is employed in setting them to work, and to the particular way in which it is so employed." [3]

Smith's main theoretical interest lay, therefore, in the sphere of capitalist production, and particularly in the problems relating to the accumulation of capital. The analytical tools which he developed were designed to deal with the questions arising in this sphere. His account of accumulation, for example, is formulated in terms of two basic theoretical concepts—the notion of surplus and the distinction between productive and unproductive labour. The social surplus of produce over cost, assuming the dual form of rent and profits, is regarded as the only possible source of funds for accumulation, and labour is described as "productive" or "unproductive" according to whether it actually helps to create this surplus or merely shares in it.[4]

In Smith's system, as opposed to that of the Physiocrats, labour employed in manufacture is assumed to be productive—in other words, industrial profit is regarded as being an income in the nature of a surplus. Profit now stands on its own, quite independent of rent—a "real primitive increase of national

[1] *Wealth of Nations*, Vol. 1, p. 375.

[2] *Ibid.*, p. 1.

[3] *Ibid.*, pp. 241–2, and p. 2.

[4] This, I believe, is the basic idea which Smith had in mind when making his distinction. It is surely implied in the very title of the chapter in which he discusses the question—"Of the Accumulation of Capital, or of Productive and Unproductive Labour." The criterion of distinction usually emphasised by Smith's critics to-day—that relating to the material or immaterial character of the commodity produced—probably owed its origin to the fact that in Smith's time almost all the labourers employed on a capitalist basis were engaged in the production of material goods.

wealth," as a later economist was to describe it,[1] originating in the process of production and regularly yielded even under competitive conditions. Smith intuitively recognised, I think, that if profit was to be regarded in this way a new theory of value had to be evolved. Roughly speaking (and with several notable exceptions) previous writers had conceived of the " value " of a commodity in terms of the physical items which had been used up in order to produce it. The value of a finished commodity equalled the value of the raw materials embodied in it, plus the value of the subsistence goods consumed during the process of production by the men who worked up the raw materials. This crude theory of value—which we can perhaps call the " physical cost " theory to distinguish it from the Ricardian " labour cost " theory—was, of course, quite inadequate to deal with the theoretical problems arising out of the new way of looking at profit. In the first place, the physical cost theory implied that the " value " of what went into the productive process was exactly the same as the " value " of what came out—that is, it implied that no surplus was yielded *in production*. And in the second place, on the basis of the physical cost theory the existence of profit could be accounted for only by conceiving commodities as being customarily sold *above their value*. But as capitalism developed, and markets became more and more competitive, economists became increasingly impressed by the fact that the actual prices received for a commodity tended to oscillate around a sort of mean or average price, and a new notion of value began to take the place of the old. It began to be felt that value ought to be conceived, not as something which a commodity usually sold *above*, but as something which under competition it tended to sell *at*. The physical cost theory, then, was incapable of giving theoretical expression to the idea of profit as a value-surplus which originated in the activity of production and which was realised when the commodity was sold " at its value " on a market. A new theory of value had to be developed. Smith's own attempt to develop such a theory was no doubt confused and ambiguous, but it did at least have the merit of directing inquiry away from the physical cost theory and towards the labour cost theory eventually adopted by Ricardo. And although Smith seems to have decided that the labour cost theory was inapplicable under conditions of developed capitalism, he did apply it fairly consistently in his account of the origin of profit. " The value which the workmen add to the materials," he wrote, " resolves itself . . . into two parts, of which the one

[1] Daniel Boileau, *Introduction to the Study of Political Economy* (1811), p. 164.

pays their wages, the other the profits of their employer upon the whole stock of materials and wages which he advanced." [1]

But these aspects of the *Wealth of Nations* appear especially significant only if, as I have suggested, we look at Smith's work from the viewpoint of Ricardo's *Principles*. It is easy to exaggerate the extent of Smith's emancipation from Physiocratic notions. Taking the *Wealth of Nations* as a whole, Smith looks backwards towards the Physiocrats almost as often as he looks forward towards Ricardo. In a number of passages, for example, he stresses the primacy of the agricultural surplus. "It is the surplus produce of the country only," he writes in his chapter on the progress of opulence, "or what is over and above the maintenance of the cultivators, that constitutes the subsistence of the town, which can therefore increase only with the increase of this surplus produce." [2] Such statements are not in themselves Physiocratic, but they may easily lead to the adoption of a Physiocratic viewpoint. Smith asserted that the great landed proprietor, when he uses his rent-surplus to purchase manufactured goods from tradesmen and artificers, "indirectly pays all (their) wages and profits and thus indirectly contributes to the maintenance of all the workmen and their employers." [3] And in another passage, which Spence was later to find useful, Smith argued that the produce of "lands, mines, and fisheries" replaces with a profit not only the capitals required in these spheres "but all the others in the society." [4] Smith's leanings towards Physiocracy are even more clearly revealed in his well-known comparison between the productive powers of labour in manufacture and in agriculture. In manufacture the labourers occasion only "the reproduction of a value equal to their own consumption, or to the capital which employs them, together with its owners' profits"; but in agriculture, "over and above the capital of the farmer and all its profits, they regularly occasion the reproduction of the rent of the landlord." The generation of this additional surplus in agriculture is ascribed to the fact that it is only in agriculture that

[1] *Wealth of Nations*, Vol. 1, p. 42. It should be noted that the Physiocrats did not need a theory of value at all in order to give expression to the idea of *rent* as a surplus. In early agricultural production, as distinct from manufacture, the commodities comprising the input are likely to be qualitatively similar to those comprising the output, so that the creation of the surplus can be plausibly described in *real* terms without the intervention of a value theory. Cf. Malthus, *Principles* (L.S.E. reprint), pp. 262–4; Ramsay, *An Essay on the Distribution of Wealth* (1836), pp. 137–8 and 146; Marx, *Theorien*, Vol. 1, pp. 44–5; and M. H. Dobb, *Political Economy and Capitalism*, pp. 31–2.

[2] *Ibid.*, Vol. 1, p. 337.

[3] *Ibid.*, p. 367.

[4] *Ibid.*, p. 249.

"nature labours along with man."[1] In view of these statements, it is not surprising that Smith should have believed that the interest of the landlords is "strictly and inseparably connected with the general interest of the society."[2] Nor is it surprising that his direct critique of Physiocracy at the end of Book IV should have been so unsatisfactory.

In a predominantly agricultural society, it may seem quite natural to regard land-rent as the primary and original category of income and profit as a secondary and derivative category. In a developed capitalist economy, on the other hand, in which capital and capitalist organisation have been extended to embrace every field of productive activity, including agriculture, it may seem more appropriate to regard profit on capital as the primary and land-rent as the secondary income.[3] From this point of view, Smith's thought was essentially transitional. Although he partially succeeded in emancipating profit from its former state of dependence upon rent, he was content merely to afford it an equal status, and did not seek to assert its superiority over rent. In fact, as we have just seen, rent in his system often retained some of its old pre-eminence. Smith's genius enabled him to discern the broad outlines of the capitalist form of economic organisation rather in advance of its complete realisation, but he could hardly have been expected to anticipate certain fundamental social attitudes which emerged only when the industrial revolution was well under way.

The more abstract sections of the *Wealth of Nations* did not excite much interest until the end of the century. Then, however, a number of factors combined to attract a considerable amount of attention to the question of the origin of capitalist profit and its relation to land-rent. The startling increase in productivity and profit in the manufacturing industries and the threat to Britain's commerce during the Napoleonic wars were obviously influential factors. The promulgation of the Malthusian theory of population may perhaps be regarded as another: Malthus had drawn popular attention to the relationship between subsistence and population, and thence to the relationship of dependence between the agricultural surplus and the non-agricultural population.[4] But the most important influence, overlapping the others and in part dictating the attitudes adopted

[1] *Ibid.*, Vol. 1, p. 324.

[2] *Ibid.*, p. 230.

[3] Cf. S. N. Patten, "The Interpretation of Ricardo," *Quarterly Journal of Economics*, April 1893, *passim.*

[4] See, *e.g.*, the second edition of Malthus's *Essay* (1803), pp. 435–6.

by the participants in controversies over more ephemeral issues, was undoubtedly the sharpening of the political struggle between the recipients of rents and the recipients of profits. This struggle, culminating in the passing of the Reform Bill, may be said to have marked the consummation of the victory of the capitalist order in Britain. The question of the origin of profit and the nature of the interdependence between rent and profit began to be regarded as *politically* significant. If the agricultural surplus was in fact the basic income out of which all the other incomes were ultimately paid, this might be presumptive evidence in favour of special discriminatory measures protecting agriculture and the recipients of rent. If, on the other hand, profit on capital—particularly capital employed in manufacture—actually represented " a real primitive increase of national wealth," there was no longer any necessary presumption in favour of the landed proprietors : if manufacture was truly productive, it was truly independent.

The first important work to be considered is John Gray's pamphlet *The Essential Principles of the Wealth of Nations*, published in 1797. " The principal and most essential cause of the prosperity of a state," Gray argues, " is the ingenuity and labour of its inhabitants exercised upon the fertility of the soil." [1] Agricultural labour is truly productive—*i.e.*, productive of a surplus; but " no augmentation of the revenue of society arises from the labour of a manufacturer," since " the buyer precisely loses not only what the manufacturer gains, but the amount of the wages, and of the price of the raw materials besides." [2] Adam Smith and other notable writers have been misled into believing that manufacturing labour produces a surplus because of the obvious fact that many master-manufacturers do somehow manage to get rich. But profit actually originates, not in the process of production, but in the act of exchange. " When the manufacturer ceases to be a seller," Gray asserts, " his profits are immediately at a stand, because they are not natural profits, but artificial." [3]

Two special aspects of Gray's argument deserve comment. In the first place, Gray regards manufacture as unproductive from the point of view of the nation as a whole only if the goods are sold at home. If they are exported, then " the profit of the exporter becomes the profit of the nation where he lives "—a thorough-going Mercantilist conclusion.[4] In the second place,

[1] *Essential Principles*, p. 4. [2] *Ibid.*, p. 36. [3] *Ibid.*, p. 39.
[4] Cf. Davenant, *An Essay on the East-India-Trade* (1697), p. 31.

Gray uses Physiocracy not to defend but to attack the landed interests. The labourers in manufacture, he says, may be unproductive, but they are at least a necessary and useful class. But the landlords, because they have separated the rent of land from "the constitutional purpose of the defence of the state," have now rendered themselves "one of the most unessential and most burdensome classes in society." [1] Gray was not the only economist to make Physiocratic principles serve radical ends. The idea that the incomes of the landowners were nothing but a monstrous exaction from the produce of the labour of the agricultural workers, and that upon this primary exaction were based the claims of numerous other parasitical elements, became quite common in the radical literature of the period. Charles Hall, Piercy Ravenstone and Thomas Hopkins were among those who founded their main arguments on this thesis.[2]

Daniel Wakefield, an uncle of Edward Gibbon Wakefield, published a reply to Gray in 1799, of which a second edition, virtually a new work, appeared five years later. The main problem which excited Wakefield's interest was "whether labour employed in manufactures does produce, as well as labour employed in agriculture, a surplus value." [3] He personifies agriculture by a "cultivator" and manufacture by a "manufacturer," both of whom, at least in the earlier stages of the argument, are assumed to combine in their own persons the qualities of entrepreneur and labourer. The "cultivator" is apparently assumed to operate with his own "cattle for work, implements, sheds, &c." and to rent land from a proprietor, while the "manufacturer" is assumed "to exercise his industry on a borrowed capital." The cultivator during the process of production "annihilates" certain things in order to obtain his product. He annihilates : (1) "his own intermediate support, between seed time and harvest"; (2) "the wear of his stock advances"; and (3) "the seed sown." The value of his "rude produce" will be sufficient to replace the value of the three items "annihilated" and in addition to provide a "surplus value, or surplus production," divided into "the profits of his stock, and the rent of his land." The manufacturer similarly "annihilates": (1) "his own intermediate support between the beginning and completion

[1] *Essential Principles*, p. 51.

[2] Charles Hall, at least, was quite conscious of the affiliation. In a letter written in 1808 to Arthur Young he complains that Spence and Cobbett "took their ideas" from his *Effects of Civilisation* (B. M. Addl. 35,130, f. 128).

[3] *An Inquiry into the Truth of the Two Positions of the French Oeconomists, etc.* (1799), pp. 6–7.

of the manufacture "; (2) " the wear of his stock advances "; and (3) " the raw material used." The value of his " finished manufacture " will also be sufficient to replace the value of the three items " annihilated " and in addition to provide a " surplus value " divided into " the profits of his stock, and the interest of his capital." [1] Wakefield believes that this argument proves that " both rent of land and interest of capital . . . are equally caused by the labour and ingenuity of man producing a surplus, or more than his support and expence, whether employed on land, or capital : in agriculture, or manufactures." [2]

This was not a new argument. It had been anticipated in a casual remark made by Smith,[3] and Alexander Hamilton had used a variant of it as a weapon against Physiocracy in his *Report on Manufactures* in 1791.[4] And, of course, the analogy between rent and interest is not very happily drawn : if the cultivator operates with his own capital, his net receipts will obviously include a payment for interest,[5] and rent remains as an income of a unique type whose appearance in agriculture alone has still to be explained. But the fact that Wakefield looked at the problem in terms of cost and surplus value led him to put forward a number of subsidiary arguments which are of rather more interest. In the first place, he realised that an adequate answer to the Physiocrats required the intervention of a theory of value, and he endeavoured to supply such a theory himself. The Physiocrats assert, Wakefield argues, that " the increase of the Manufacturer is only nominal : that, though to him it is an increase, to the community it is only a transfer of produce, from the class of Cultivators to that of Manufacturers." But, he asks, " how is it ascertained, that the increase of the Cultivator is not equally nominal ? " Surely it is wrong to consider " not any thing to be valuable but food." The labour of the manufacturer, like that of the cultivator, yields a surplus value—that is, it is " worth more in the estimation of the Consumer " than the items annihilated in the process of production. If the estimation of the consumer is not to be taken as evidence of the value of the product, " what shall be

[1] *An Essay upon Political Oeconomy* (1804), pp. 9–11.

[2] *Inquiry*, pp. 14–15.

[3] *Wealth of Nations*, Vol. II, p. 329.

[4] *Papers on Public Credit, Commerce and Finance* (ed. S. McKee), pp. 184–5. Hamilton, like Turgot, emphasised the fact that rent may be regarded as interest on the capital sunk in land. The rent paid on land " advanced " to the farmer by the landlord, therefore, did not differ qualitatively from the interest paid on the capital advanced to the manufacturer.

[5] Wakefield recognised clearly enough that this would be the case if the *manufacturer* worked with his own capital : *Essay*, p. 11.

considered as evidence?"[1] Wakefield's attempt to link a subjective theory of value with his main analysis is not particularly successful, but a number of the by-products of his attempt are interesting—notably his concept of "relative cost" (roughly equivalent to our opportunity cost),[2] his statement that the wages of "every kind of educated labour" constitute a "monopoly price,"[3] and his recognition of the fact that anything which the labourers and capitalists receive over and above the supply price of labour and capital is in the nature of a rent.[4] In the second place, Wakefield laid considerable emphasis on the role of *labour* in production. "All value," he says, "is the result of an exertion of human wit and industry," supporting this contention with extensive quotations from Garnier, Locke and Priestley. He stresses the fact that even in agriculture and the extractive industries labour plays a prominent and active role—an argument which was to become increasingly familiar during the next decade.[5]

Interest in these problems among economists must have been widespread in the opening years of the nineteenth century. In 1801 William Spence was reading to a literary society a paper in which he maintained "all the main positions" subsequently taken up in his *Britain Independent of Commerce*.[6] In 1803 Malthus's second edition appeared. Lauderdale's *Inquiry*, with its critique of Physiocracy and its new theory of profit, was published in 1804; and in the same year, apparently, Simon Gray wrote his *Happiness of States*. And Dugald Stewart was including in his influential lectures a long discussion on the distinction between productive and unproductive labour, in which he tended to side with the Physiocrats rather than with Adam Smith. But the publication of Spence's *Britain Independent of Commerce* in 1807, the advocacy of Spence's views by Cobbett in his *Political Register*, and the entrance of Mill, Torrens and

[1] *Essay*, pp. 12–14.

[2] *Ibid.*, pp. 51–3.

[3] *Ibid.*, p. 67.

[4] *Ibid.*, p. 69. Cf. Buchanan, *Observations on the Subjects Treated in Dr. Smith's Inquiry* (1814), pp. 39–41.

[5] *Ibid.*, p. 56 and pp. 40–6. This argument, that labour is very important in agriculture, was sometimes associated with another—that nature is very important in manufacture. Ricardo used it in his *Principles* (*Works*, pp. 39–40, footnote); it is also to be found in Hamilton's *Report on Manufactures* (*op. cit.*, p. 183); and in a review of Lauderdale's *Inquiry* in the *Edinburgh Review*, July 1804, p. 359.

[6] Cf. Spence's letter in Cobbett's *Weekly Political Register*, December 5, 1807, pp. 921–2.

Chalmers into the arena, brought the controversy to the notice of a much wider public.

Spence's work, considered in itself, is not particularly interesting. It caused a great popular stir, of course, largely because Spence put forward the comfortable view that the destruction of Britain's overseas trade by Napoleon would make little difference to national welfare. As an exposition of the theory of Physiocracy it is inferior to Gray's pamphlet. Spence tried to explain the origin of industrial profit by arguing, more or less as the French Physiocrats had done, that the cultivator may give more for a manufactured article than its "real value"—its "real value" being conceived (in physical cost terms) as being equivalent to "the raw produce and food consumed in producing it." [1] The master-manufacturer may in this manner receive a surplus over his costs of production, and may even be able to accumulate part of his profits and thus acquire great riches—but even then "the whole of his gains would be at the expense of the land proprietors, and no addition would be made to the national wealth." [2] Cobbett's extensive advocacy of Spence's views (under the provocative title "Perish Commerce") did not contribute a great deal towards a solution of the theoretical problem involved, although one of his correspondents was acute enough to realise that its solution depended upon regarding value as being "constituted by labour, or the difficulty of producing any commodity." [3]

Torrens's reply to Spence, *The Economists Refuted*, contains some interesting passages which have sometimes been construed as an anticipation of the doctrine of comparative costs,[4] but in general it is much less effective than James Mill's *Commerce Defended*. Mill's chapter on Consumption is a remarkable piece of work. It is quite consciously imbued with the main ideas associated with the mature Classical outlook—that production is primary and consumption secondary, that the economic progress of society depends upon the accumulation of capital, and that the only possible source of funds for accumulation is the social surplus.[5] The main purpose of the chapter is to attack Spence's contentions that "expenditure, not parsimony, is the province of the class of land proprietors," and that "for the constantly progressive maintenance of the prosperity of the community, it is

[1] Spence, *Tracts on Political Economy* (1822), p. 148.
[2] *Ibid.*, p. 14.
[3] *Register*, January 23, 1808, pp. 130 ff. See also the letter in the issue of February 6, 1808, pp. 218 ff.
[4] See Viner, *Studies in the Theory of International Trade*, pp. 441–4.
[5] *Commerce Defended* (1808), pp. 79, 70–4, and *passim*.

absolutely requisite that this class should go on progressively increasing its expenditure." [1] Mill saw Spence's argument for what it was—an attack upon capital accumulation, and denied vehemently that it was possible for capital to increase too fast. "Obstacles enow exist to the augmentation of capital," he said, "without the operation of ridiculous speculations." [2] To support his attack on this part of Spence's book, Mill refurbished a well-known dictum of Smith's [3] in order to assure Spence that "the whole annual produce of the country will be always very completely consumed, whether his landlords choose to spend or to accumulate." [4] Mill then proceeded to develop his famous exposition of what subsequently came to be known as Say's Law. The most interesting thing about this controversy (continued by Spence in his tract *Agriculture the Source of the Wealth of Great Britain*) is, of course, the way in which it foreshadowed the later and greater one between Ricardo and Malthus. Malthus, like Spence (and indeed like Chalmers too), seems to have based his under-consumptionist doctrine on the Physiocratic contention that "the unproductive consumption of the landlords and capitalists" should be "proportioned to the natural surplus of the society"; [5] and Ricardo, like Mill, based his reply on an elaboration of Smith's dictum and on Say's Law.

Two more Physiocratic tracts remain to be noticed.[6] One of them, the anonymous pamphlet *Sketches on Political Economy* (1809), has often been commented upon, and little need be said about it here. The author uses Physiocracy (plus a version of the labour theory of value) to attack Lauderdale's theory of the productivity of capital. Capital is merely "accumulated labour," it is urged, and "can only reproduce itself without addition." [7] The most curious thing about the pamphlet is the manner in which the author vacillates between different theories

[1] Spence, *Tracts*, pp. 32–3.

[2] *Commerce Defended*, p. 88.

[3] *Wealth of Nations*, Vol. I, p. 302.

[4] *Commerce Defended*, p. 71.

[5] From a letter from Malthus to Ricardo of July 16, 1821, quoted by Keynes in *Essays in Biography*, p. 144.

[6] Traces of the Physiocratic outlook may be found in the work of men like Thomas Joplin and J. S. Reynolds, as well as in that of a number of the radical economists and Malthusian underconsumptionists. Haney has claimed Egerton Brydges as a Physiocrat, but the allegedly Physiocratic passages are so vague that the claim seems to be hardly justified. (Brydges is more notable for a clear statement of the relation between price and marginal cost—see his *Population and Riches* (1819), pp. 21–2 and *passim*.) The only other out-and-out Physiocrat I have been able to trace was William Reid, who published a defence of Physiocracy in 1833 (*Inquiry into the Causes of the Present Distress*).

[7] *Sketches*, pp. 19–28.

of value. He begins by flirting with something like a subjective theory based on diminishing utility; then he asserts that value "may safely be defined *labour*" and that "in the exchange of commodities, the worth of each in relation to the other, is estimated by the time employed in fabricating it"; [1] and finally, he seems to discard the labour theory and adopts Spence's Physiocratic concept of "real value." The pamphlet, like Wakefield's, at least has the merit of recognising that to explain surplus value *some* theory of value is necessary.

The other Physiocratic work, Thomas Chalmers' *Enquiry into the Extent and Stability of National Resources*, was published in 1808. It was inspired by the same set of circumstances which stimulated Spence's pamphlet, but according to Chalmers he did not see the latter until his own work was nearly completed.[2] Chalmers' intention was to prove that "a much larger proportion of the wealth of the country may be transferred to the augmentation of the public revenue, and that . . . a much larger proportion of the population of the country may be transferred to the augmentation of its naval and military establishments." [3] His main analysis is divided into three parts. First, he considers "the case of a country that carries on no foreign trade." He argues that the population of a country consists of: (1) the *Agricultural Population*, upon whom devolves the labour of providing food for the whole community; (2) the *Secondary Population*, who are engaged in providing strict necessities other than food (clothing, housing, etc.) for the whole community; and (3) the balance, the *Disposable Population*. This third group is "disposable" in the sense that it is maintained out of the "surplus food of the country," which is, in the first instance, "at the disposal of its proprietor." The proprietor assigns the agricultural surplus to the disposable population, who, in return, "contribute in various ways to his comforts and enjoyments." The master gives the orders and the servants obey. If the country carries on no foreign trade, then, it follows from this view of the economy that the destruction of a particular manufacture is a matter of little concern. The agricultural surplus—the subsistence fund for the disposable population—is still in existence, and since "it will infallibly be expended" by the landed proprietor, the displaced workmen will soon be given "the same maintenance as before, in another capacity." All that will happen is that a section of the disposable population will be put on to producing a different commodity. And if the government taxes the landed proprietor,

[1] *Sketches*, pp. 1–3. [2] *Enquiry*, p. 343. [3] *Ibid.*, p. 295.

"and appropriates to itself part of that fund which is expended on the maintenance of the disposable population," the position is similar: the proprietor has to dismiss a section of the disposable population, but the government will soon re-employ them in another capacity. If it employs them as soldiers, the country will lose the commodities they were formerly producing, but will gain in return a different commodity, which at the present time is far more precious—security against invasion. "There is no creative, no inherent virtue in the manufacture: It is the consumer who contributes the revenue." [1]

Secondly, Chalmers considers "the case of a country which carries on foreign trade, but is subsisted by its own agricultural produce." The landed proprietor, it is contended, "may also conceive a liking for an article of foreign manufacture." Owing to the heavy transport costs involved, he will not send his surplus produce abroad to pay for the foreign goods—he will instead "maintain labourers at home, and send over their work as an equivalent." The idea that those who live by foreign trade form "an independent interest," and that their wealth "is an original and not a derived wealth," is simply an illusion. The practical conclusions arrived at in the first case also apply to the second.[2]

Thirdly, Chalmers considers "the case of a country which has to import agricultural produce." This is obviously a much more difficult case than the second one, and Chalmers' method of dealing with it is ingenious, although hardly satisfactory. He begins by asserting that "the inhabitants of a whole country are seldom accumulated to any great degree beyond the limits of its own agricultural produce." [3] He then suggests, with the aid of a somewhat dubious calculation, that the "redundant population" of Great Britain (that is, the population subsisted by imported food) "does not amount to above one-thirtieth of the natural population of the island." [4] It is true, he admits, that the destruction of Britain's foreign trade would render the redundant population jobless, and reduce the national income. But this is not a cause for despair: their contribution is negligible, and in any event it would probably be quite easy to introduce improvements in agriculture which would increase the surplus of food sufficiently to maintain them.[5]

[1] *Enquiry*, Chapter I, *passim*.

[2] *Ibid.*, Chapter 2, *passim*.

[3] *Ibid.*, p. 145. Cf. Dugald Stewart, *Works*, Vol. I, p. 270.

[4] *Ibid.*, p. 147. Cf. Ricardo, *Works*, p. 383, and Chalmers, *Political Economy* (1832), p. 227.

[5] *Ibid.*, Chapter 3, *passim*.

The passages in which Chalmers discusses the origin of industrial and commercial profit are consistently Physiocratic. It may be asked, he argues, how it is possible to distinguish between "original and derived wealth" when there appears on the surface to be a "mutual dependence" between buyers and sellers. It may be asked whether he has not "all along overlooked a very important element, the profit of our capitalists." But such criticisms ignore the vital fact that "the proprietors of the necessaries of life compose the original and independent interest." And profit is simply a wage for the "higher species of service" rendered by the capitalist—a wage which, like that of all the others who labour in manufactures, is paid by the "original proprietors of the necessaries of existence." The capitalist may secure a profit which is more than sufficient "to make up to him the maintenance of a labourer," so that he, as well as the landed proprietor, may be able to "command the services of so many of the disposable population." But even so, the wealth of the merchant or manufacturer is necessarily derived, whereas that of the landed proprietor is original.[1]

. . . . .

Between Chalmers' *Enquiry* and Ricardo's *Principles* there lies a deep gulf. Whereas Chalmers thinks of the surplus as a flow of *commodities* of a particular type, Ricardo thinks of it as a flow of *value*, and the physical attributes of the commodities produced in the economy become irrelevant to the problem of the increase of wealth. Then again, while both Chalmers and Ricardo regard the power and prosperity of a country as being largely dependent upon the size of its net revenue,[2] Chalmers regards the surplus as consisting of rent alone, and Ricardo regards it as consisting of both rent and profits. And finally, whereas Chalmers treats profit as being paid out of rent, there is an important sense in which Ricardo treats profit as the primary, and rent as the derivative, income.

Ricardo's *Principles* reflects a new social attitude which had been struggling for adequate theoretical expression for some time. Chalmers himself was haunted by it, and, since his book was written to combat it, often stated it fairly precisely. Manufactures, he said, "are looked up to as an original and independent interest, as possessing in themselves some native and inherent ability, and as if the very existence of the country depended

[1] *Enquiry*, Chapters 2 and 4, *passim*.
[2] *Ibid.*, p. 224; Ricardo, *Works*, pp. 210–12.

upon their prosperity and extension." [1] Again, "the interest of the country is supposed to be identical with the interest of its traders and shopkeepers; and as profit is the grand source of their revenue, so profit . . . is supposed to be one of the grand sources of the revenue of the public." [2] As capitalist methods spread throughout the economy, as striking increases in productivity followed one upon the other, and as accumulation came to be made more and more out of profits and less and less out of rents, the idea naturally became current that profits were not just equally as important as rents, but somehow superior to them.

It was more difficult than it might appear to give theoretical expression to this new attitude. For one thing, the claims of agriculture to pre-eminence were hard to dispute. No one could deny that agriculture was historically prior to industry and commerce, and that, at least in the absence of international trade, the size of the agricultural surplus did still effectively limit the extension of industry and commerce. And whereas the production of a surplus in agriculture could easily enough be visualised in physical terms, it was difficult to visualise a similar process taking place in manufacture, where the elements of input and output usually consisted of entirely different commodities. The production of a surplus in manufacture could be visualised only in terms of *value*, which required quite a considerable development in the use of abstraction in economic analysis; and an abstraction from the physical attributes of the commodities produced could become plausible only when the territorial division of labour had become recognised as a normal and natural feature of the world economic scene, and when it had been allowed that "there is always abundance of food in the world" [3] for which Britain's manufactured exports could be exchanged. For these reasons, it was difficult enough to establish even the independence of profit, let alone its superiority over rent.

Nevertheless, as a result of the Physiocratic controversies, the independence of profit was successfully maintained. It became widely accepted that labour was able to produce a surplus in manufacture as well as in agriculture, and that agriculture was not even *especially* productive. Nature's labour is important in manufacture; man's labour is important in agriculture; rent of land is qualitatively similar to interest on capital; elements akin to rent are found in profit and wages—all these were argu-

[1] *Enquiry*, p. 54. Cf. Hollander, *David Ricardo*, p. 16.
[2] *Ibid.*, p. 169.
[3] Ricardo, *Works*, p. 191, footnote.

ments put forward to prove that there was nothing sacrosanct about rent and nothing unique about agriculture. The next stage was to turn the tables completely on the Physiocrats and to treat profit, rather than rent, as the primary and original income.[1] For this principle to be embodied in a theoretical system, two pieces of apparatus required to be evolved. First, a *theory of value* was needed—a theory which would be free from any bias towards the old physical cost concept, and which was capable of distinguishing between cost and surplus in manufacture as well as in agriculture. Smith and some of the anti-Physiocrats had pointed in the direction of the labour theory which Ricardo was to adopt; and any ties which still existed between the physical cost and labour cost concepts were decisively broken in Ricardo's first chapter-heading. Second, a *theory of rent* was needed—a theory which would suggest that rent was not an original but a derivative income. Ricardo consistently interpreted his new theory of rent in this way. Whereas Malthus always regarded rent as an agricultural surplus beneficently provided by Nature, Ricardo always regarded it as a deduction from profits—a deduction made possible only because Nature had been *less* beneficent in supplying fertile land than she had been in supplying such things as air and water. Rent, by the operation of natural laws, had come to be a part of the social surplus, but it had gained this position only at the expense of profits. Building on the ground which had been cleared during the Physiocratic controversies, Ricardo was at last able to give precise theoretical expression to the mature Classical outlook.

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[1] Buchanan made an attempt to do this in 1814: see his *Observations*, p. 135. Ricardo was apparently impressed by these passages: see *Works*, p. 243.